Revenue Sources

The revenues necessary to finance state government are collected from a variety of sources. All sources are dedicated to a specific fund or account and may only be appropriated or used in the manner as prescribed by law. The major sources of revenue are described below.

The **General Revenue Fund** consists of taxes, fees, and licenses which are dedicated to the state fund or are not specifically directed to special or other dedicated purposes. All General Revenue Fund expenditures, except refunds or overpayments into the fund, must be specifically appropriated by the Legislature and may be appropriated for any purpose as the Legislature so desires.

The **State Road Fund** consists of taxes, fees, and licenses which are dedicated solely to this fund. Federal funds received for the purpose of road construction or maintenance are also included as part of the State Road Fund. The State Road Fund is appropriated by the Legislature, but may only be used to fund the Division of Highways and the Division of Motor Vehicles.

Lottery Funds consist of funds derived from the sale of lottery tickets or games and limited video lottery. House Bill 102 provided for changes in the Lottery Act and Racetrack Video Lottery Act as well as the creation of the Limited Video Lottery Act. In addition, HB 102 created an Excess Lottery Fund and stipulates to which fund lottery profits are to be directed—the already existing Lottery Fund or the Excess Lottery Fund. The Lottery Fund may be used to support the operation of the West Virginia Lottery, including expenses and prizes. The net revenue from the Lottery must be appropriated by the Legislature. Currently, the Lottery Fund may be used for PROMISE scholarships, senior citizen tax credits, the School Building Debt Service Fund, the West Virginia Infrastructure Fund, Economic Development Project Fund, Higher Education Improvement Fund, State Park Improvement Fund, and the General Purpose Fund.

Federal Funds are received directly from the federal government and may only be used for the specific purpose for which they are intended. Federal Funds have become a substantial part of the operation of state government, either as part of ongoing programs or structured to institute state action. In all cases, Federal Funds are a significant feature of state services and the budget process. Most Federal Funds are appropriated by the Legislature. Federal Funds received by the Division of Highways are appropriated as part of the State Road Fund. Federal Funds received for Higher Education and declared emergencies are not required to be appropriated by the Legislature.

Special Revenue Funds consist of revenues from fees, permits, licenses, services, or other purposes and may only be used for the specific purpose for which the individual account is intended. Special Revenue Funds may be either appropriated by the Legislature (specifically included in the Budget Act) or nonappropriated with the authority to expend funds contained in general law.

The **Medicaid State Share Fund** (Health Care Provider Tax) consists of dedicated provider taxes paid by various health care providers. The funds in the Medicaid State Share Fund supplement the General Revenue Fund appropriation and Lottery Fund appropriation of State matching funds for the Medicaid Program. The federal medical assistance match is roughly \$3 per \$1 of State matching funds.

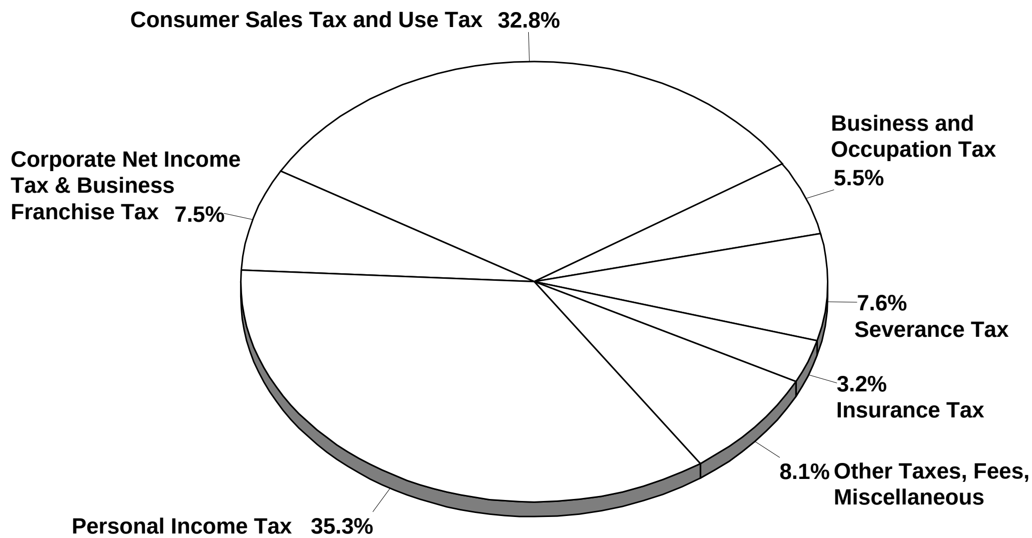
Additional Revenue Information

The following pages contain graphs depicting the sources of estimated revenues and areas of expenditure for General, State Road, Lottery, and Federal Funds. Due to the numerous sources of revenues, only the area of estimated expenditures is depicted for the Special Revenue Funds. The Medicaid State Share Fund is included in the Special Revenue Funds. However, since it is a substantial revenue source, a separate page providing actual/estimated revenues is also included.

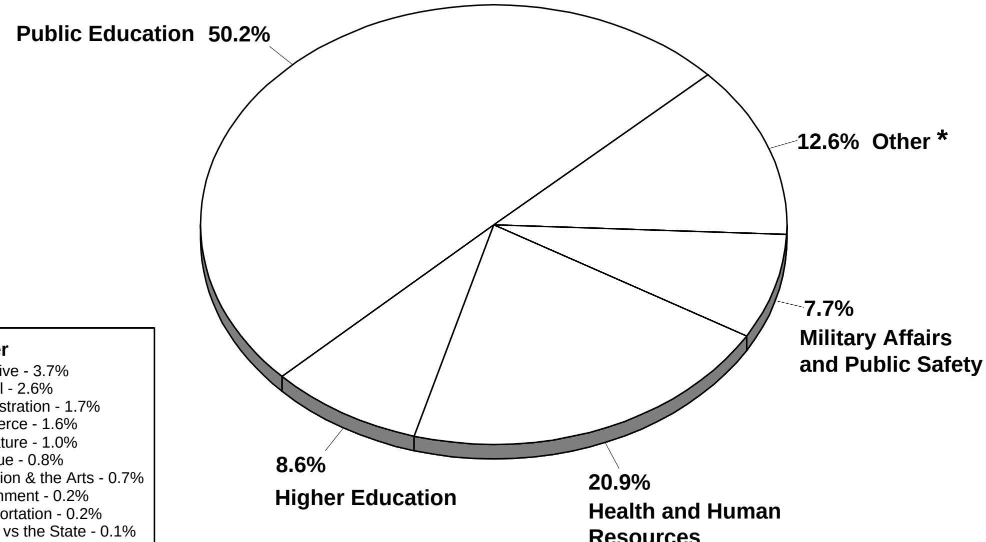
For a graphic presentation of the total state revenue by source and the expenditures by function, please refer to "Where Your State Tax Dollar Comes From" and "Where Your State Tax Dollar Goes" in the Summary Financial Statements section.

General Revenue Fund

Sources of Revenue
Fiscal Year 2006
$3.263 Billion
(Estimated)



Recommended Expenditures
Fiscal Year 2006
$3.262 Billion



***Other**
Executive - 3.7%
Judicial - 2.6%
Administration - 1.7%
Commerce - 1.6%
Legislature - 1.0%
Revenue - 0.8%
Education & the Arts - 0.7%
Environment - 0.2%
Transportation - 0.2%
Claims vs the State - 0.1%
Senior Services - 0.0%

Consumer Sales Tax and Use Tax

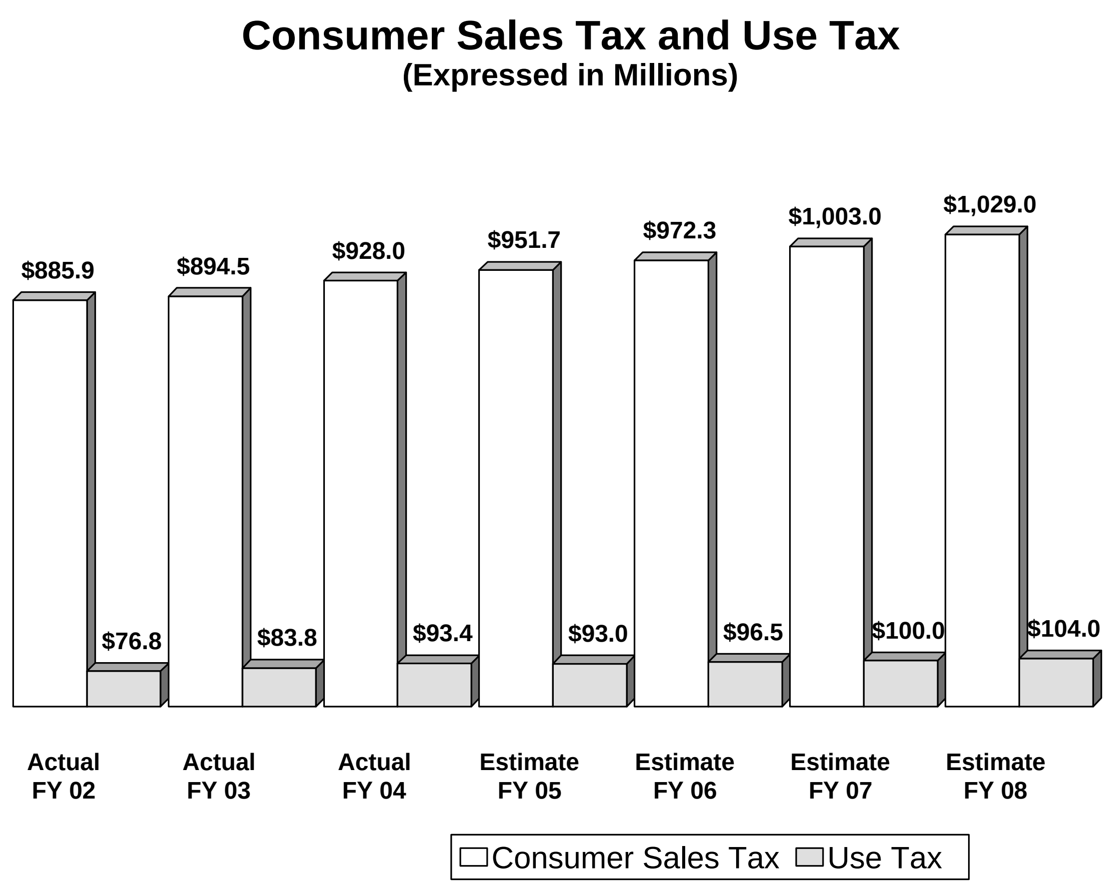
Consumer Sales Tax and Use Tax collections depend heavily upon retail sales (65%) and taxable services (15%) activities. The tax base includes most retail sales except for automobiles, gasoline, prescription drugs, and purchases made with food stamps.

Retail sales growth depends upon changes in population, disposable personal income, inflation rates, interest rates, consumer debt, and consumer confidence. State population is forecast to decline slightly over the forecast period, while real disposable personal income growth will slow to just over 2% per year.

Consumer Sales Tax collections are forecast to rise at an average annual rate of 2.6% during the FY 2005–FY 2008 forecast period. Use Tax collections are forecast to rise at an average rate of 2.7% per year. However, the growth of remote commerce will actually hinder total sales and use tax collection growth rates due to tax compliance problems.

Consumer Sales Tax and Use Tax collections account for roughly 30% and 3% of total General Revenue Fund collections, respectively. In addition to the General Revenue Fund, some Consumer Sales Tax collections go into special revenue accounts (i.e., $27.8 million in FY 2002, $30.0 million in FY 2003, $30.1 million in FY 2004, and $32.2 million in FY 2005, FY 2006, FY 2007, and FY 2008).

- **6% Sales and Use Tax on most goods and services.**
- **Accounts for nearly 33% of total General Revenue Fund.**

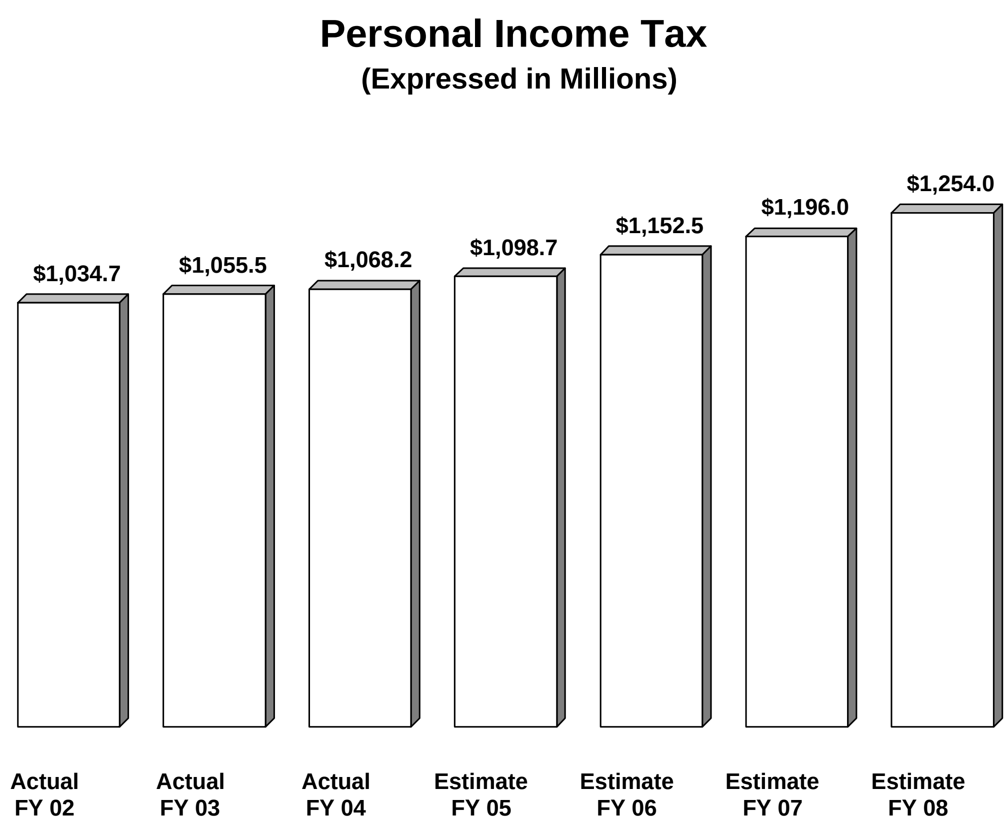


Personal Income Tax

Personal Income Tax collection trends depend upon changes in population, employment, personal income, inflation rates, interest rates, and federal tax law. Employee withholding taxes account for roughly 75% of all Personal Income Tax receipts. Following a decline in total employment of 4.2% from 2002 to 2003, employment is forecast to grow by an average annual rate of roughly 0.7% over the forecast period. Real personal income growth will slow from roughly 2.5% to 2.0%.

Income tax collections are projected to rise at an average annual rate of roughly 4.1% during the FY 2005–FY 2008 forecast period. Projected growth rates are attributable to growth in employment and earnings.

- **Tax on West Virginia taxable income:**
  - **3% on the first $10,000 of taxable income.**
  - **4% on taxable income between $10,000 and $25,000.**
  - **4.5% on taxable income between $25,000 and $40,000.**
  - **6% on taxable income between $40,000 and $60,000.**
  - **6.5% on taxable income in excess of $60,000.**
- **Accounts for 35.3% of total General Revenue Fund.**



Business and Occupation Tax

The Business and Occupation Tax (B&O Tax) consists of four distinct components; a capacity or unit-based tax on electric power generation and distribution, a gross receipts tax on nonelectric public utilities, a per unit tax on gas storage operators, and a per unit tax on producers of synthetic fuel from coal.

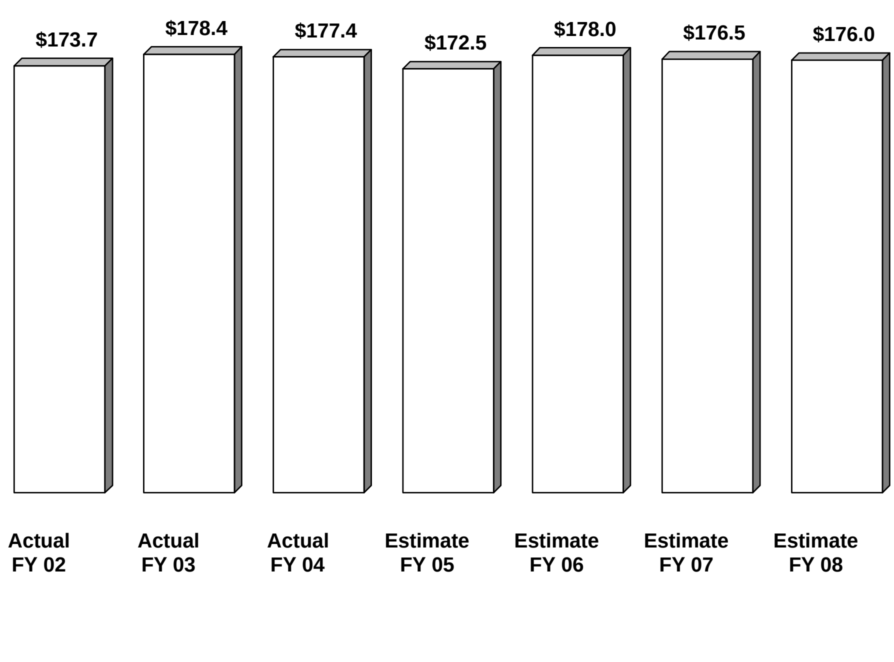
For electric power producers, the precredit tax generally equals the average precredit tax liability for the producer from tax years 1991 through 1994. Inflationary increases in the value of both investment credits and low-income rate reduction credits result in some additional decline in the net tax payments by electric power companies over the forecast period. Recent growth in investment tax credits is largely attributable to investments in pollution abatement equipment. Additionally, the installation of flue gas desulfurization systems at existing power plants may result in further decline in revenue due to a reduced tax rate attributable to such installations.

The tax on natural gas receipts applies only to public utilities. In a deregulated environment, natural gas utilities no longer have a monopoly on natural gas sales to end consumers. Sales of natural gas by nonutility companies now exceed $250 million per year. These exempt sales represent more than 48% of all natural gas sales in West Virginia. The increasing loss of revenue from nonutility sales is partially offset by a unique tax on natural gas storage activities. The natural gas storage tax is equal to the lesser of the taxpayer's average tax liability for the 1990–1994 period or five cents per dekatherm of gas attributable to the net difference between monthly injections into storage and monthly withdrawals from storage.

Producers of synthetic fuel from coal are assessed a tax of $0.50 per ton. The first $8,060,000 in collections in each fiscal year is dedicated as follows: the first $4,000,000 to the Mining and Reclamation Operations Fund; the next $2,060,000 to the Synthetic Fuel-Producing Counties Grant Fund, and the next $2,000,000 to the Synthetic Fuel-Nonproducing Counties Fund. Tax collections in excess of $8,060,000 are deposited into the General Revenue Fund.

- **Privilege tax on units of activity or gross receipts.**
- **Applies to public utilities, electric power generators, natural gas storage, and producers of synthetic fuel from coal.**
- **Tax rates and base vary.**
- **Accounts for 5.5% of total General Revenue Fund.**
- **Average annual growth rate of -0.2% from FY 2004 to FY 2008.**

Business and Occupation Tax
(Expressed in Millions)



Severance Tax

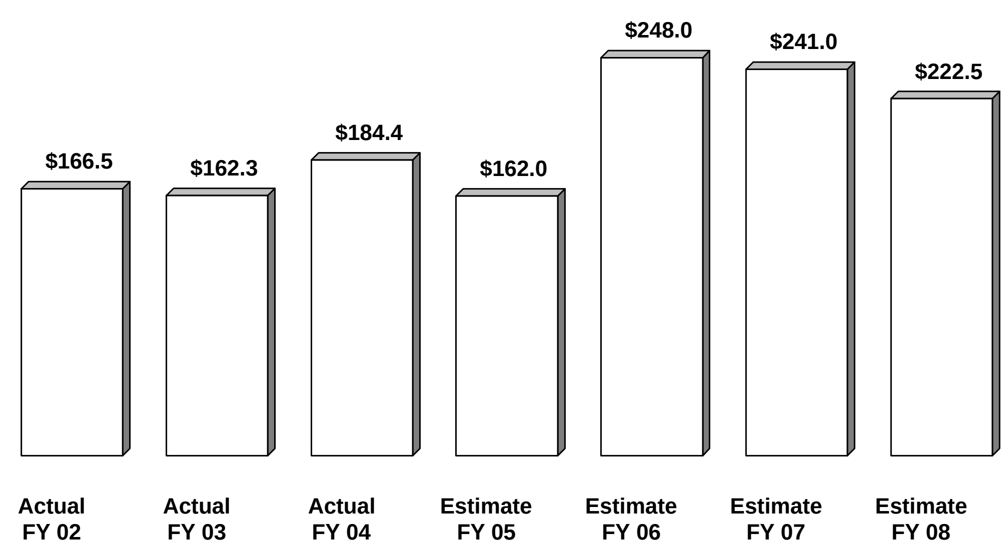
Severance Tax collections are attributable to coal production (83.5%), natural gas production (13.7%), and the production of various other natural resource products (2.8%). Other natural resources products include timber, oil, limestone, sandstone, gravel, sand, and gob (coal refuse). Tax receipts are allocated to the State General Revenue Fund (78.4%), the State Infrastructure Fund (11.6%), local governments (8.8%), and the State Division of Forestry (1.3%). The first $24 million of annual receipts is dedicated to the Infrastructure Fund.

Severance Tax collection growth largely depends upon changes in coal production, coal-fired electric power production, coal export markets, and energy prices. West Virginia coal production declined from 150 million tons in 2002 to 140 million tons in 2003. The decrease in 2003 was largely attributable to a continuing decline in energy prices from 2002 and changing environmental regulation. Recent increases in energy prices have improved expectations for coal production. The forecast assumes coal production will increase slightly through the forecast period. The production increase occurs in response to elevated prices in domestic and export markets for coal.

The future outlook of the Severance Tax is clouded by significant uncertainty concerning long-run energy prices, limitations of the coal transport sector, and the potential impact of additional environmental regulations on the coal and electric power industries. World energy prices are expected to subside from their current levels, resulting in less production incentive for coal producers. Railroads have reduced freight capacity in recent years, leaving little excess capacity to handle additional coal production. Further restrictions upon carbon and nitrogen-oxide emissions could reduce the use of West Virginia coal in future years. Total State Severance Tax collections will rise at an average annual rate of more than 13% between FY 2003 and FY 2007. However, collections are then expected to decrease by an average annual rate of roughly 4.8% between FY 2007 and FY 2008.

- **A privilege tax on gross receipts with a base rate of 5%. (Reduced rates are available for new underground thin seam coal, waste coal, and timber).**
- **Applies to natural resources (coal, gas, oil, other) production.**
- **Accounts for 7.6% of total General Revenue Fund.**
- **Average annual growth rate of 4.3% from FY 2004 to FY 2008.**

Severance Tax
(Expressed in Millions)



Corporation Net Income Tax and Business Franchise Tax

The Corporation Net Income Tax is a 9% tax on net profits of incorporated entities doing business in West Virginia. The Business Franchise Tax is a 0.7% tax on the net equity component (defined as the value of capital stock, preferred stock, paid-in capital, and retained earnings) of business balance sheets and applies to most corporations, partnerships, and limited liability companies. Collection trends for these taxes largely depend upon the overall health of the U.S. economy, corporate profits, interest rates, inflation rates, the degree of preference for equity financing over debt financing, the degree of business earnings reinvestment, and changes in federal tax policy. Following a forecast of double-digit growth in calendar year 2004, corporate profits are forecast to decline by roughly 1% in 2005 and then grow modestly throughout the remainder of the forecast period.

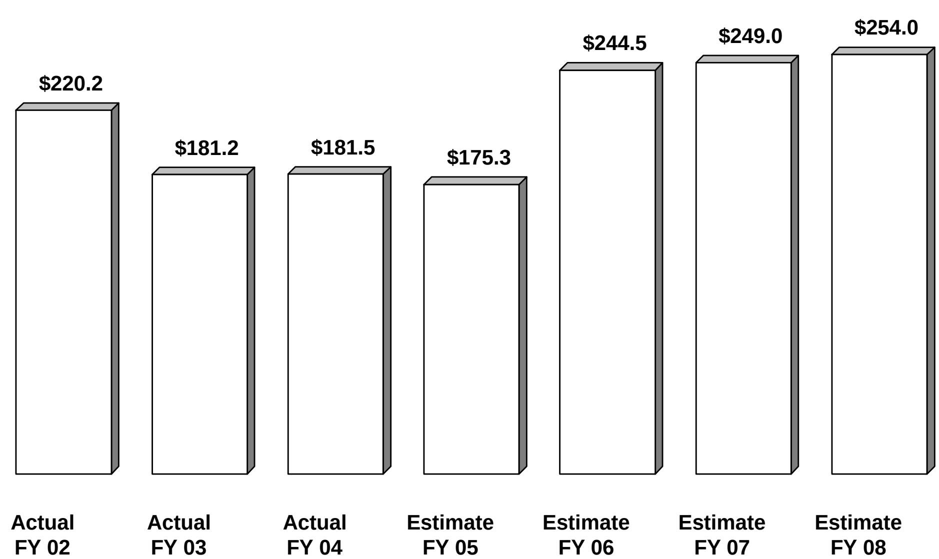
Combined Corporation Net Income Tax and Business Franchise Tax receipts declined by 1.6% in FY 2001, but grew by 2.7% in FY 2002. Collections fell by 17.7% in FY 2003, but remained steady in FY 2004 with 0.2% growth year over year. Over the forecast period, Corporation Net Income Tax and Business Franchise collections are forecast to grow at an average annual rate of over 8%.

Collection patterns tend to be very volatile because the majority of Corporation Net Income Tax and Business Franchise Tax receipts are attributable to a small number of taxpayers. A change in the financial status of just a few taxpayers can have a dramatic impact upon tax collection trends. Most large taxpayers have multistate operations.

- **9% tax on modified federal taxable income apportioned to West Virginia (Corporation Net Income Tax) and a 0.7% tax on the net equity (Business Franchise Tax)**
- **Corporation Net Income Tax applies to C corporations, but not S corporations or unincorporated entities.**
- **Business Franchise Tax applies to most corporations, partnerships, and limited liability companies.**
- **Accounts for 7.5% of total General Revenue Fund.**

Corporate Net Income Tax & Business Franchise Tax

(Expressed in Millions)

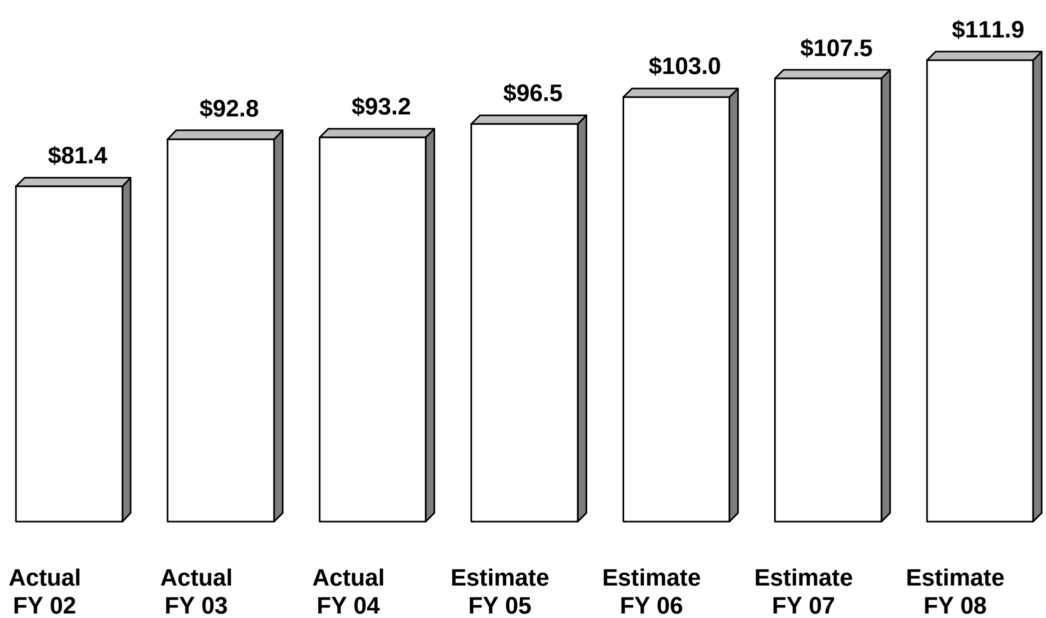


Insurance Tax

The Insurance Premium Tax is a gross receipts tax levied upon insurance premiums. Accelerated growth of health care costs, homeowner premiums, and automobile insurance premiums will fuel growth in Insurance Tax collections. Beginning with FY 2004, a total of $2,500,000 in each fiscal year (the first $1,667,000 of the 2% premium tax received from insurance policies for medical liability insurance and the first $833,000 of the additional 1% premium tax received from insurance policies for medical liability insurance) was directed to replenish the Tobacco Settlement Fund following the April 1, 2003, transfer of $24 million from the Tobacco Settlement Fund for use as the initial capital and surplus of a physicians' mutual insurance company created by the Legislature.

- **3%–4% tax on gross premiums from business in West Virginia.**
- **Accounts for 3.2% of total General Revenue Fund.**
- **Average annual growth rate of 4.7% from FY 2004 to FY 2008.**

Insurance Tax
(Expressed in Millions)



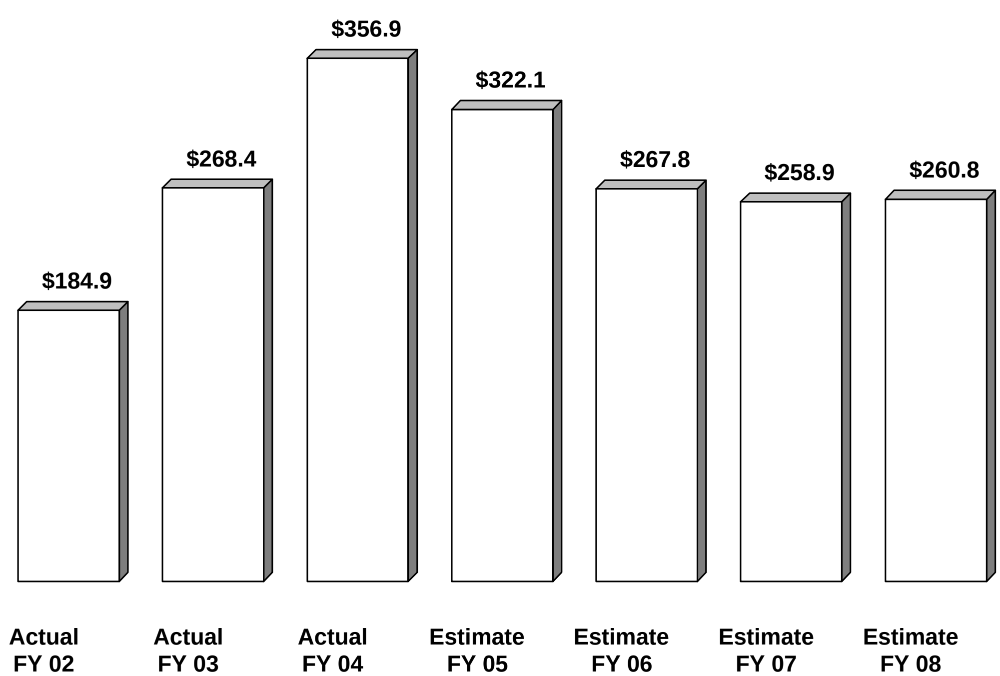
Other Taxes and Fees

These other taxes, licenses, fees, and receipts consist of Liquor Profit Transfers, Racing Fees, Beer Tax and Licenses, Tobacco Products Excise Tax (including the Cigarette Tax), Estate Tax, Business Franchise Fees, Charter Tax, Property Tax, Property Transfer Tax, Departmental Collections, Interest Income, Telecommunications Tax, Special Revenue Transfers, Miscellaneous Receipts, Miscellaneous Transfers, Video Gaming Revenues, and the Senior Citizen Tax Credit Reimbursement (from Lottery Revenue). Most of these other taxes and fees are dependent upon population growth, other demographic trends, and changes in consumer behavior.

Many of these other taxes, licenses, and fees will remain unchanged through the forecast period. However, an increase in Interest Income due to projected growth in interest rates will be offset by anticipated decreases in receipts attributable to both the Telecommunications Tax and the Estate Tax. Current law limits the application of the Telecommunications Tax to services determined not to be subject to competition by the West Virginia Public Service Commission. The Federal Telecommunications Act of 1996 will continue to open local phone service to competition. The forecast assumes that the federal law will result in a gradual decline in Telecommunications Tax collections from current receipt levels of roughly $11 million per year to $5 million by FY 2008. Without the enactment of legislation to decouple the Estate Tax from federal law, West Virginia Estate Tax collections will decline from roughly $9.3 million in FY 2004, to $200,000 by FY 2006, and to $0 by FY 2007. Additionally, the expected establishment of video gaming in one or more of the surrounding states will reduce West Virginia revenue.

- **Accounts for 8.1% of total General Revenue Fund.**

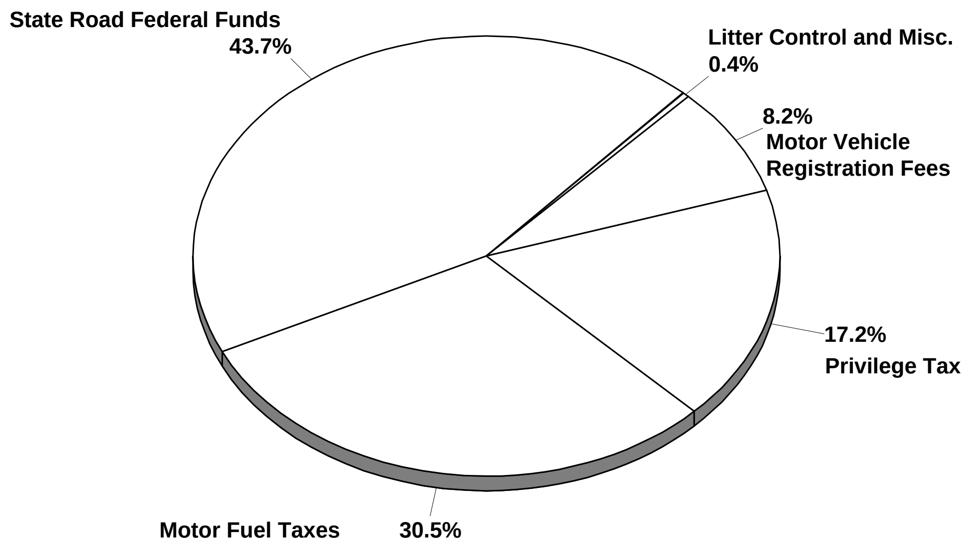
Other Taxes and Fees
(Expressed in Millions)



State Road Fund

Sources of Revenue

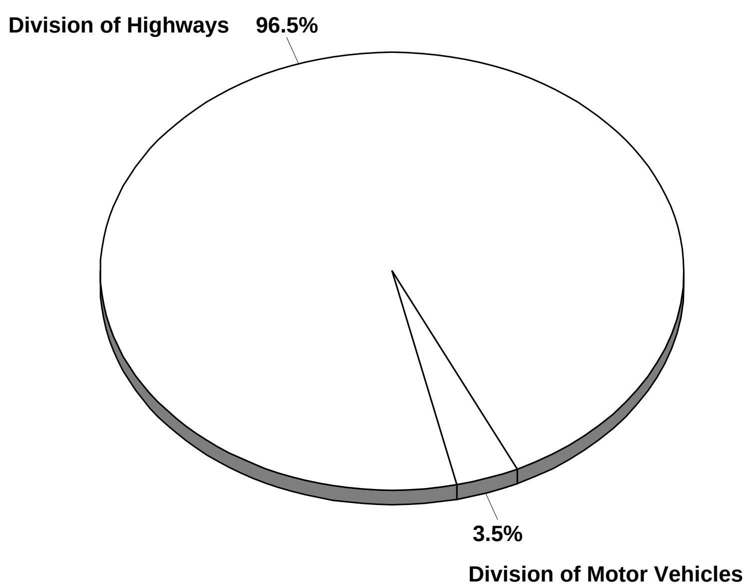
Fiscal Year 2006
$1.116 Billion*
(Estimated)



*Includes Beginning Cash Balance plus FY 2006 Revenue.

Recommended Expenditures

Fiscal Year 2006
$1.060 Billion



Motor Fuel Taxes

The Motor Fuel Excise Tax and Motor Carrier Road Tax have been combined and are reported as Motor Fuel Taxes:

Motor Fuel Excise Tax

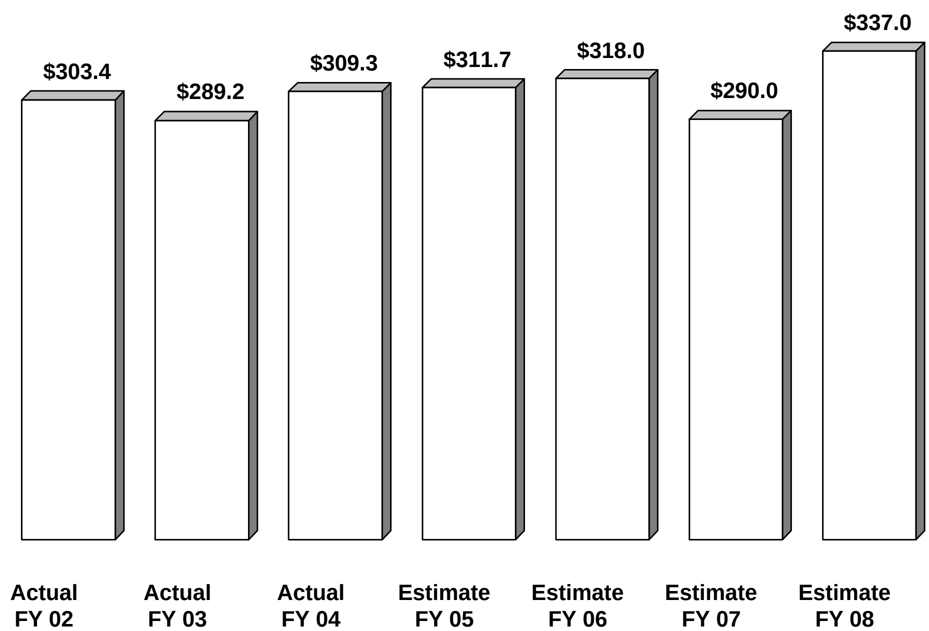
- Contains a flat rate and a variable rate
  - * Current flat rate is $.205 per gallon.
  - * Variable rate is equal to 5% of the average wholesale price of motor fuel.
- Imposed and payable on all motor fuel upon import into this state, removal from a terminal within this state, or removal from a terminal in another state for delivery in this state.
- The average wholesale price shall not be less than $.97 per gallon which generates a minimum tax rate of $.0485 per gallon.
- Effective the first day of January annually, the tax commissioner must calculate the average wholesale price from sales data from the previous July through October.

Motor Carrier Road Tax

- Equivalent to the Motor Fuel Excise Tax on motor fuel.
- Imposed upon every motor carrier with a vehicle that is designed to transport persons or property having two or more axles with a gross vehicle weight exceeding 26,000 pounds, including road tractors and tractor trucks.
- Based upon each gallon of motor fuel used in the carrier's operations in the state.
- Carrier is entitled to a refund for fuel purchased in the state but used out of state.
- Carriers domiciled in the state are charged an annual fee of $10 for two identification markers.

- **Accounts for 30.5% of the total State Road Fund.**

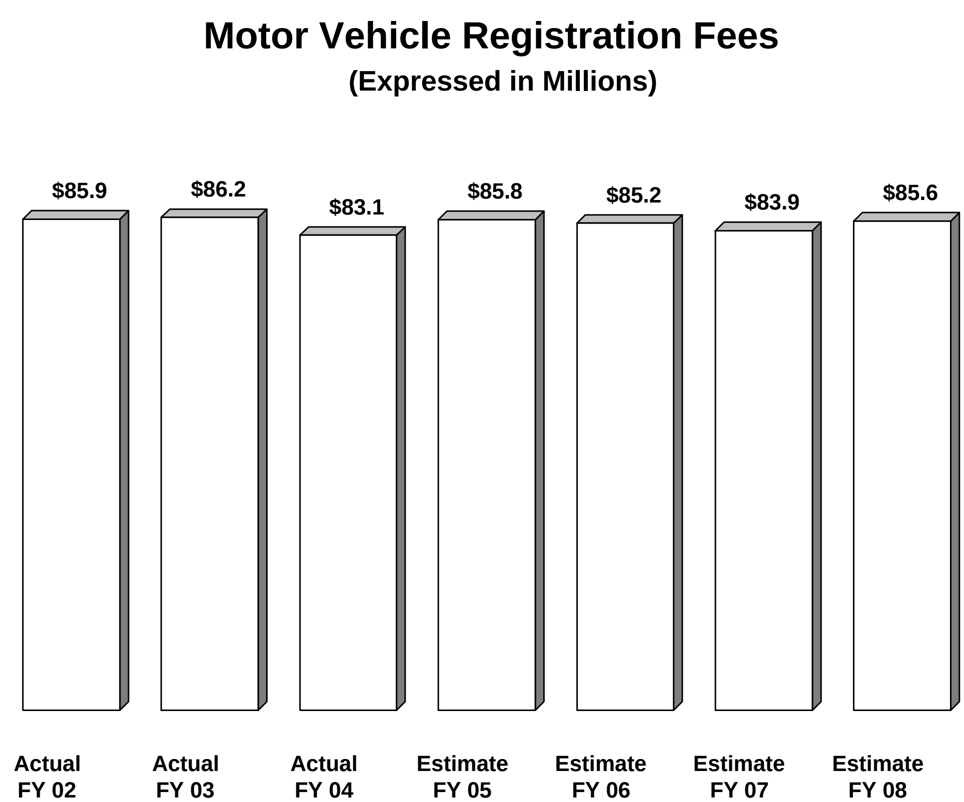
Motor Fuel Taxes
(Expressed in Millions)



Motor Vehicle Registration Fees

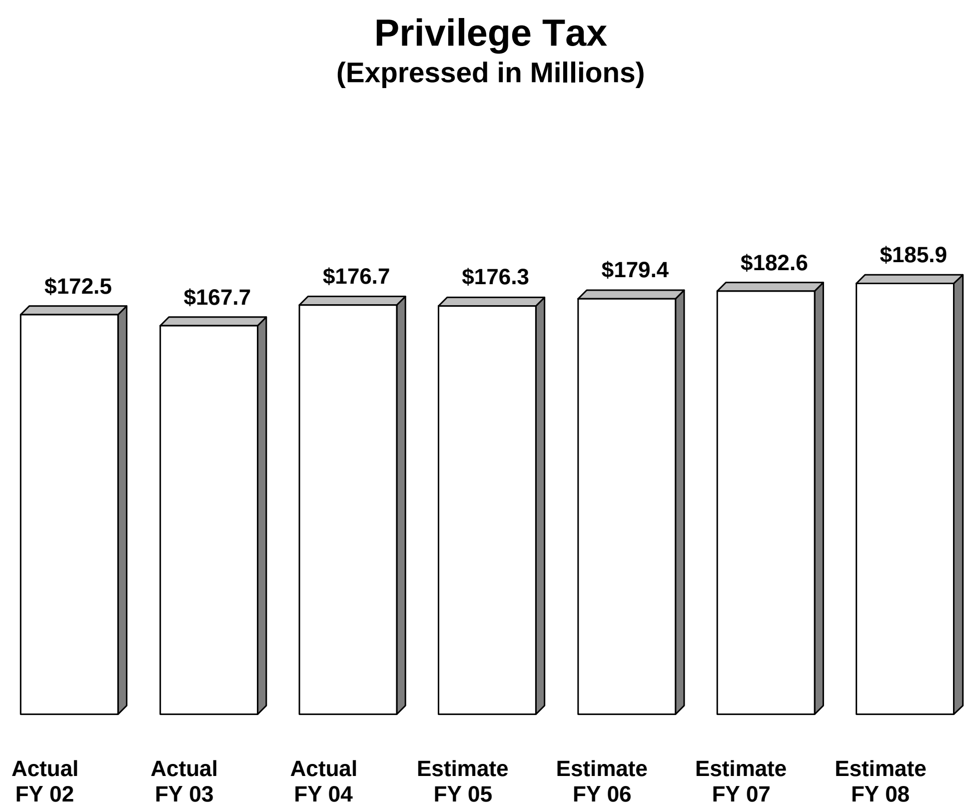
The Division of Motor Vehicles collects numerous fees which are required to be deposited in the State Road Fund, including certificate of title, vehicle licenses(registration), dealers' and wreckers' licenses, and operator licenses and renewals.

- **Accounts for 8.2% of the State Road Fund.**



Privilege Tax

- The Privilege Tax is imposed for the privilege of effecting the certification of title on a vehicle.
- Tax amounts to 5% of the value of the vehicle at the time of such certification.
- Accounts for 17.2% of the total State Road Fund.

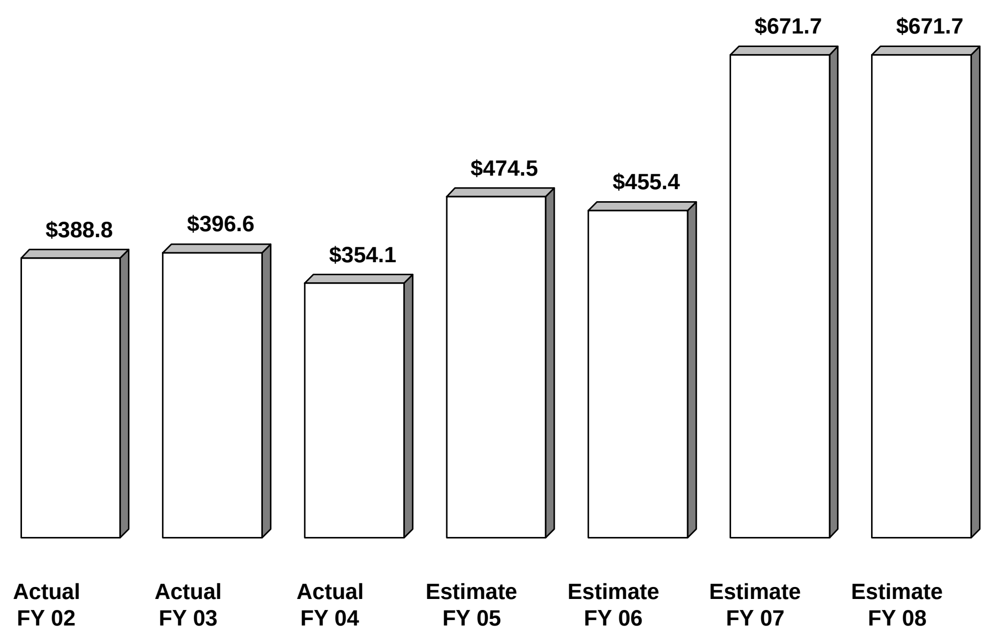


State Road Federal Funds

- Federal funds are received by the Division of Highways for Interstate Construction, Appalachian Programs, and Other Federal Aid programs.
- These funds become part of the State Road Fund and are appropriated as such.
- Accounts for 43.7% of the total State Road Fund.

State Road Federal Funds

(Expressed in Millions)



Economic Trends

(Divisions of Highways and Motor Vehicles)

Highway Infrastructure

Although tax collections in the State Road Fund grew during the past five fiscal years, they did not significantly exceed official estimates. From FY 2000 through FY 2004, actual cash revenues exceeded official estimates by only 1.78%. While those extra dollars allowed the Division of Highways to deal with unexpected expenses, such as major floods and severe winter weather, they did not permit the division to undertake many new projects. In fact, some areas of expenditures were reduced during periods of less than desirable fund equity levels. Revenues are projected to remain relatively flat through FY 2008, while at the same time it is anticipated that nondiscretionary costs and program demands will continue to rise. As a consequence, many programs that are operated from the State Road Fund will experience little, if any, increase in the foreseeable future, and some programs probably will revert to lower funding levels. The inability to fund these programs adequately impacts the quality of highway infrastructure. Existing roads and bridges will deteriorate, and construction of new infrastructure will be delayed. Since the condition of highway infrastructure is often a major factor in economic growth, the state potentially faces a loss in development. Additionally, declines in the division's various construction and paving programs will reduce the number of projects awarded to private contractors and consulting firms. This could result in a reduction in their workforces, which also would have a negative impact on the state's overall economy.

Federal funding plays a major role in the operations of the Division of Highways. The Transportation Equity Act for the 21st Century (TEA-21), which passed in 1998 and established a six–year highway bill, ended on September 30, 2003. In federal fiscal year (FFY) 2004, new highway legislation failed to be enacted. Instead, Congress has passed a series of continuing resolutions that have slowly provided funds consistent with TEA-21 levels. Final passage of a new transportation bill, expected to yield 25–30% more federal funds for West Virginia, is now anticipated by mid-2005. Most federal funds are matched with 20% state funding. The expected increase in federal funding will require a corresponding increase in state matching dollars (as much as $20–$25 million annually) in order to draw down all of the federal monies. Although increased federal funding is welcomed, it will constitute an additional demand on the State Road Fund and cause the nonfederal programs to be cut even further.

Unless additional state revenues become available or noncritical expenditures are reduced significantly, the State Road Fund and, consequently, highway infrastructure will continue to deteriorate and impact the state's economy negatively for the foreseeable future.

Rail Transportation

The number of rail cars handled by the South Branch Valley Railroad (SBVR) has remained consistent for the past two years. At the same time, revenues have grown due to new rate structures and increases in the hauling of higher priced commodities. Additionally, the SBVR is moving 65–car unit trains to the Pilgrim's Pride feed mill, unloading them, and returning the empty cars to the interchange with CSXT in 36 hours. This scenario brings more revenue per car to the SBVR and allows the customer to receive better shipping rates from CSXT. This is a win-win situation for all parties, and, since Pilgrim's Pride is the largest employer in the South Branch Valley, it is a plus for the local economy. The track belonging to the SBVR is also used by the Potomac Eagle, a tourist train operation that continues to work with the local communities to expand tourism business in the valley.

Unfortunately, the freight revenue received from the operation of the SBVR is inadequate to pay for needed capital improvements. It cannot be overemphasized how important it is to complete the track rehabilitation program that the State Rail Authority (SRA) started in FY 2001 with General Revenue funds. Thousands of jobs are directly impacted by the rail service provided by the SBVR. If the track is allowed to deteriorate, shippers will be forced to seek alternative transportation; their increased costs will threaten operations, the overall economy of the region will decline dramatically, and the costs associated with unemployment, loss of tax revenues, and the "ripple effect" will significantly impact the state's revenue collections.

The West Virginia Central Railroad (WVCR) operator, Durbin & Greenbrier Valley Railroad, continues to promote and market that line. A study issued by Stone Consulting, which was hired by the SRA, determined the expenditures made by tourists on the WVCR contribute $5,000,000 to the economy of the region. The tourist operation also contributes to an incremental job creation of approximately 250 equivalent full-time employees. This economic stimulus is the type of positive outcome that makes the investment in this line worthwhile.

Public Transportation

The future of public transit faces economic uncertainty as the United States Congress continues to pass extensions of the Transportation Equity Act of the 21st Century (TEA-21) but fails to reauthorize the highway and transit program. These extensions assure the vital continuation of our nation's transit programs, but it passes the much-needed TEA-21 reauthorization into the hands of the next Congress. The Federal Transit Administration's (FTA) reauthorization proposal, which was released in the spring of 2003, is known as SAFETEA (Safe, Accountable, Flexible, and Efficient Transportation Equity Act of 2003). SAFETEA would increase rural transit funding by eliminating the capital discretionary program which has been the major source of money used to replace the State's transit fleet and would add two state administered grants programs – the Job Access and Reverse Commute program which is currently administered by FTA and the New Freedom Initiative which will target job transportation for the disabled community. Federal funds which require no match would be available to administer these two programs.

National associations report that sustaining the growth of the transit program and maintaining guaranteed levels of funding may be difficult. The National Business Coalition for Rapid Transit indicates that transit access is essential for the nation's economic health and prosperity. It connects workers to jobs, relieves traffic congestion, reduces energy consumption, and generates jobs and a significant return on investment.

The future of transit and the addition of new service areas in West Virginia will be heavily dependent upon the investment that the state and federal governments make in this important community service. As the state's population continues to age and remain active but is limited in its ability to drive, mobility issues loom as a major concern for the state. Community transportation systems are critical to the state's citizens who either do not have the income level to own a vehicle or are not legally permitted or physically able to drive a vehicle. Mandatory reductions in state spending coupled with no increase in the division's base budget since FY 1995 except for projects specified by the Legislature make reductions of public transit service a continuing possibility.

Aviation

The revenue generated from the Aviation Fuel tax continues to fluctuate from one year to the next. In FY 2002 and FY 2003, collections for the 12 reporting months were approximately $500,000. In FY 2004, that same reporting period generated only $419,000. The tax is used to provide matching funds for Federal Aviation Administration (FAA) airport improvement projects and other federal aviation grants. The fluctuations make it difficult to accurately project the level of funds that will be available in future years for matching purposes.

West Virginia's federal aviation appropriation has increased from $12.4 million in FFY 2000 to $33.5 million in FFY 2004. Typically, FAA provided 90% of the funding for a project, and the airports or other local entities provided the 10% matching funds. Historically, the Aeronautics Commission provided the airports with either 25% or 50% of that local match from its fuel tax collections. This was done primarily because most of the airports do not have the local resources to provide the entire match. With the dramatic increase in federal funding, the fuel tax revenues were no longer sufficient to meet all matching funds requirements. Accordingly, starting in FY 2003, the commission began committing reappropriated General Revenue funds to the projects.

Federal legislation enacted in 2004 increased FAA project funding to 95%. Although this reduced the local match requirements, approximately $1,800,000 still is needed in FY 2005. That is a difficult amount for most airports or other local entities to provide. Consequently, the commission continues to contribute 50% ($900,000) of that local amount, primarily through its General Revenue appropriations.

The Federal Aviation Administration believes that this higher level of federal funding will continue for the next several years. Greater aviation activity and improved and expanded aviation infrastructure will create jobs and contribute to the growth of West Virginia's economy. To lessen the likelihood that an airport will be unable to obtain the local funds needed to receive the federal dollars for these important projects, the commission will continue to provide a portion of the local matching funds. To do so, the commission needs to supplement its Aviation Fuel tax revenue with General Revenue funds, including any available for reappropriation by the West Virginia Legislature.

Intermodal Transportation

West Virginia has the potential to significantly increase its business and industrial competitiveness through the development of river ports with intermodal transportation connections (river, rail, and highways). The West Virginia Public Port Authority (WVPPA) is actively pursuing the development of intermodal river and inland container ports which could provide significant job creation. The container facilities are designed to permit the efficient movement of 20 foot and 40 foot high-value cargo containers via rail or highway. Active inland container ports that border the Appalachian region have created over 5,000 jobs within a 25-mile service area radius. Ports that are being considered for development in West Virginia will have 75-mile service area radii, primarily because of the lack of existing marine infrastructure. These public intermodal river ports and inland container ports could provide West Virginia shippers the opportunity to gain access to international markets through the Port of Virginia and gulf coast ports. That access could permit state businesses to better compete in world markets and could encourage not only the development of new businesses, but the retention of existing businesses that are considering closing or decreasing operations in the state.

The Public Port Authority's dependence upon General Revenue as its only funding source creates difficulties in planning these projects and providing assistance to local port authority districts. The solution is a sustainable long-term special revenue stream that will be the catalyst for future development. The WVPPA has proposed the passage of a nonresident commercial watercraft tax that would be deposited in the "Riverfront Development Fund." The revenue would be appropriated by the legislature and could be used by the WVPPA only to assist in the development, construction, and operation of future intermodal river and inland container ports. These ports have the potential to more fully develop West Virginia's infrastructure and diversify its economic base.

Long Term Debt

Both the Division of Highways (DOH) and the SRA have long term debt. As of June 30, 2004, the DOH had the following outstanding General Obligation bonds (principal and interest), payable from the State Road Fund:

	Final Maturity	Balance
1973 Bond Amendment	2006	$ 5,475,988
1998 Safe Roads Bonds ($220 mil)	2023	$ 271,123,003
1999 Safe Roads Bonds ($110 mil)	2017	$ 155,082,758
2000 Safe Roads Bonds ($110 mil)	2025	$ 223,784,676
2001 Safe Roads Bonds ($110 mil)	2013	$ 105,751,945
	Total Debt	$ 761,218,370

On July 1, 1992, the State Rail Authority entered into a 15–year note payable for $4 million with the county commissions of Hampshire and Hardy Counties. The note was assigned to a bank and secured with the revenue earned by the South Branch Valley Railroad. During FY 1998, the SRA accepted a proposal made by the investment firm of Crews & Associates, Inc. The proposal allowed the firm to obtain ownership of the bonds from the local West Virginia banks for a price equal to 101% of the principal. In return, the SRA agreed to waive all call privileges associated with the bonds and receive $150,000 in compensation. The yearly debt service payment remained at $455,208 and will continue until July 2007.

West Virginia Lottery

West Virginia Lottery gross revenue grew 28% in FY 2003 and 20% in FY 2004. Gross revenue included ticket sales of on-line and instant games, racetrack video lottery, and limited video lottery revenue. Correspondingly, net revenue for those fiscal years grew 30% and 24%, respectively. The growth during these years was primarily attributable to the addition of video lottery terminals at state racetracks, an increase of instant ticket sales, and an increase in the number of limited video lottery terminals in licensed locations. Instant games increased by 12% during FY 2003 and by 4% during FY 2004. FY 2003 and FY 2004 both established new records for instant ticket sales. On-line games decreased by 23% in FY 2003 and increased by 9% in FY 2004. The FY 2003 decrease was a result of a large PowerBall® jackpot that occurred in FY 2002 and did not reoccur in FY 2003. During FY 2003 and FY 2004, the number of video lottery terminals located at the state's four racetracks increased by 37% and 12%, respectively. Such revenue tends to increase in proportion to the number of terminals. In addition, coin drop machines continued to be installed during FY 2003 and FY 2004 as well as the number of machines with a maximum bet in excess of $2 installed in both years added to the growth in revenue.

The official estimate for FY 2005 shows a decrease in gross revenue of 15% from the prior year. Sales of on-line games are projected to decrease by 18% as a result of a larger than normal PowerBall® jackpot achieved in FY 2004 which is not forecasted in FY 2005. Instant ticket sales, which have established record sales in the last three fiscal years, are expected to decrease by 18% in FY 2005. With the passage of legislation legalizing slot machines by the Commonwealth of Pennsylvania's Legislature in July 2004, an adverse impact is anticipated for three of West Virginia's tracks and racetrack video lottery revenue is projected to decrease by 18% in FY 2005. Limited video lottery sales began in December 2001. With the continued implementation of the Limited Video Lottery Act and the placement of additional video lottery terminals throughout the state, limited video lottery revenue should grow in FY 2005.

The estimate for FY 2006 is a decrease in gross revenue of 2%. Gross revenue is projected to decrease additionally by 12% in FY 2007. Instant and on-line games sales are projected to be flat in both fiscal years. Racetrack video lottery revenue is projected to decrease 8% in FY 2006 and 21% in FY 2007. The Pennsylvania legislation will permit up to 61,000 slot machines to be placed in 14 different venues throughout the Commonwealth. Three of the State's racetracks are projected to be adversely impacted as early as the fourth quarter of FY 2005. It appears that racetrack video lottery legislation will again be considered in Maryland in their 2005 session. Two additional states, contiguous to West Virginia, may be poised to take some action to legalize racetrack video lottery this year. Racetrack video lottery gross revenue could decrease by over 40%, net revenue by nearly 47% if each of these states enacts legislation similar to West Virginia's Racetrack Video Lottery Act. Limited video lottery revenue is expected to grow by 17% in FY 2006 and 3% in FY 2007 as the number of machines gradually increases towards the 9,000 maximum permitted under the Limited Video Lottery Act.

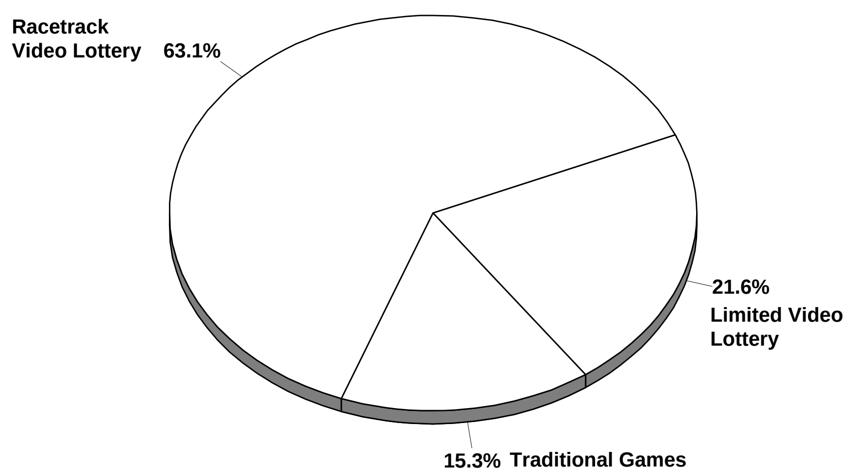
Net revenue, as indicated on the following pages, does not include the portion of lottery profits earmarked by statute for other purposes and not available for appropriations.

House Bill 102, enacted in April 2001, provided for changes in the Lottery and Racetrack Video Lottery Acts as well as the creation of the Limited Video Lottery Act. Such legislation also created the State Excess Lottery Revenue Fund and stipulates to which fund profits from different lottery games are to be directed; the previously created State Lottery Fund or the State Excess Lottery Revenue Fund. The charts on the following pages reflect where projected lottery profits are to be directed.

West Virginia Lottery

Sources of Revenue

Fiscal Year 2006
$425.5 Million*
(Estimated)

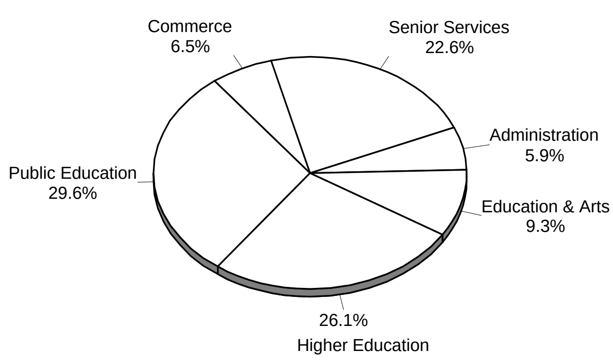


*Includes Beginning Cash Balance plus FY 2006 Revenue.

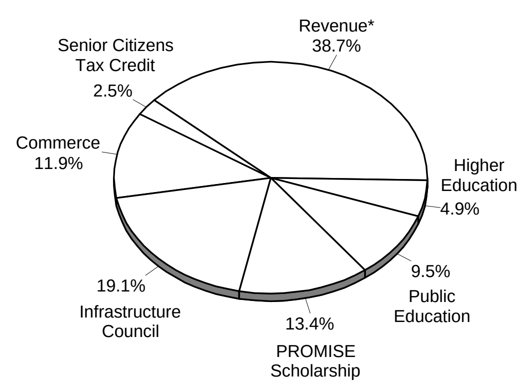
Recommended Expenditures

Fiscal Year 2006
$373.0 Million

Lottery Fund
$170.1 Million



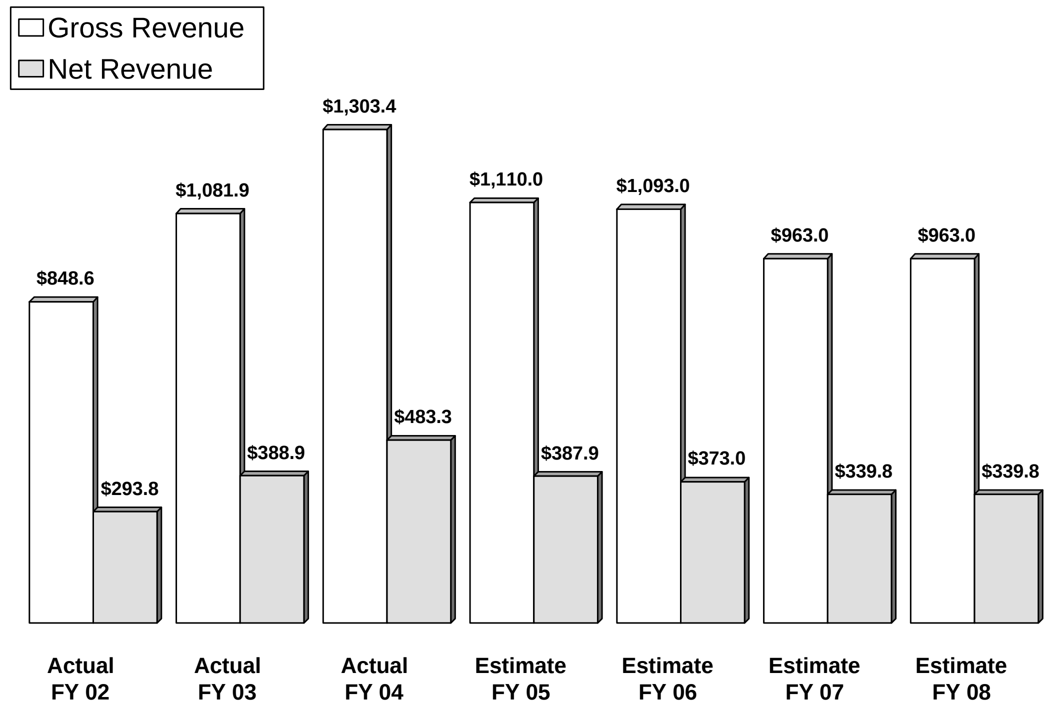
Excess Lottery Fund
$202.9 Million



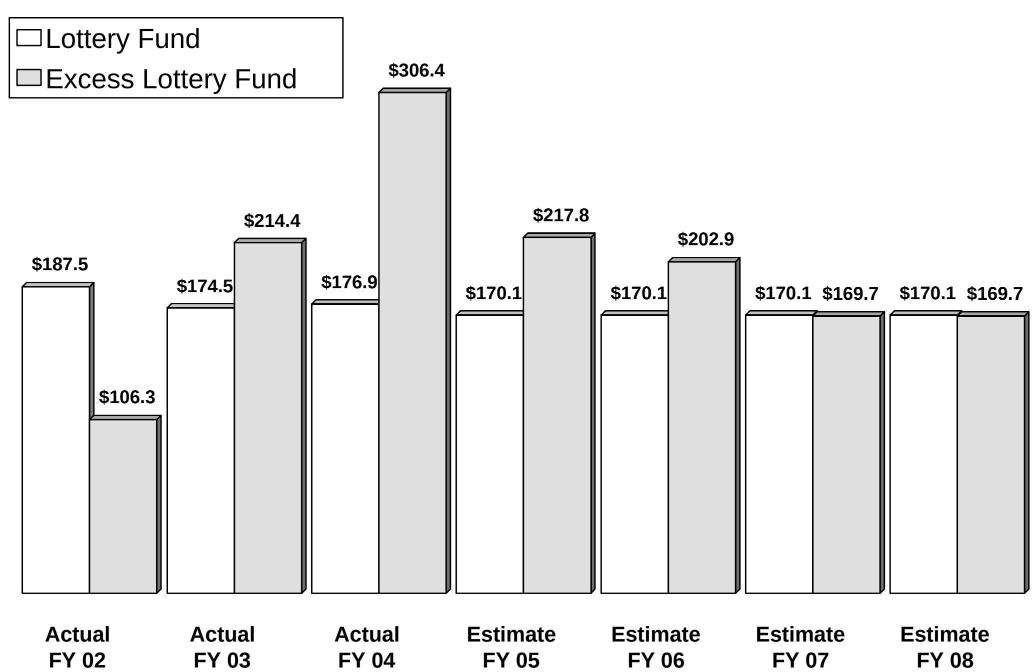
* Transfer to General Revenue Fund

West Virginia Lottery

Gross and Net Revenue
(Expressed in Millions)

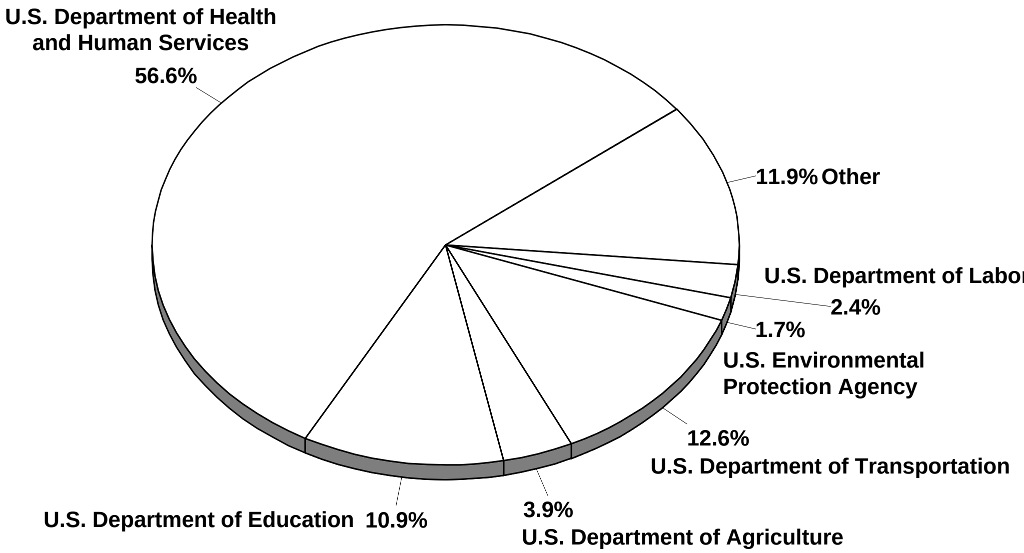


Net Revenue Distribution
(Expressed in Millions)

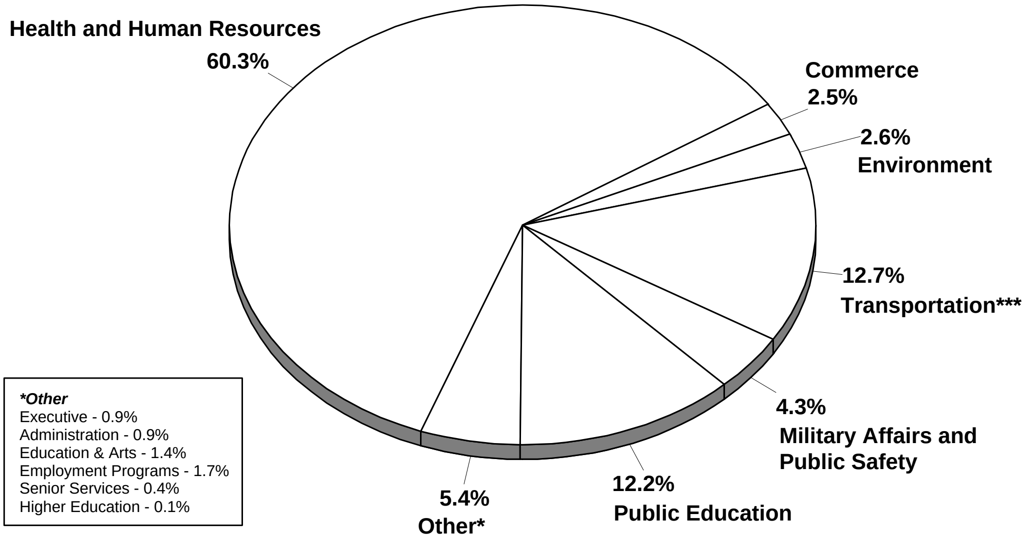


Federal Funds

Sources of Revenues
Fiscal Year 2006
$3.96 Billion
(Estimated)



Recommended Expenditures**
Fiscal Year 2006
$3.74 Billion



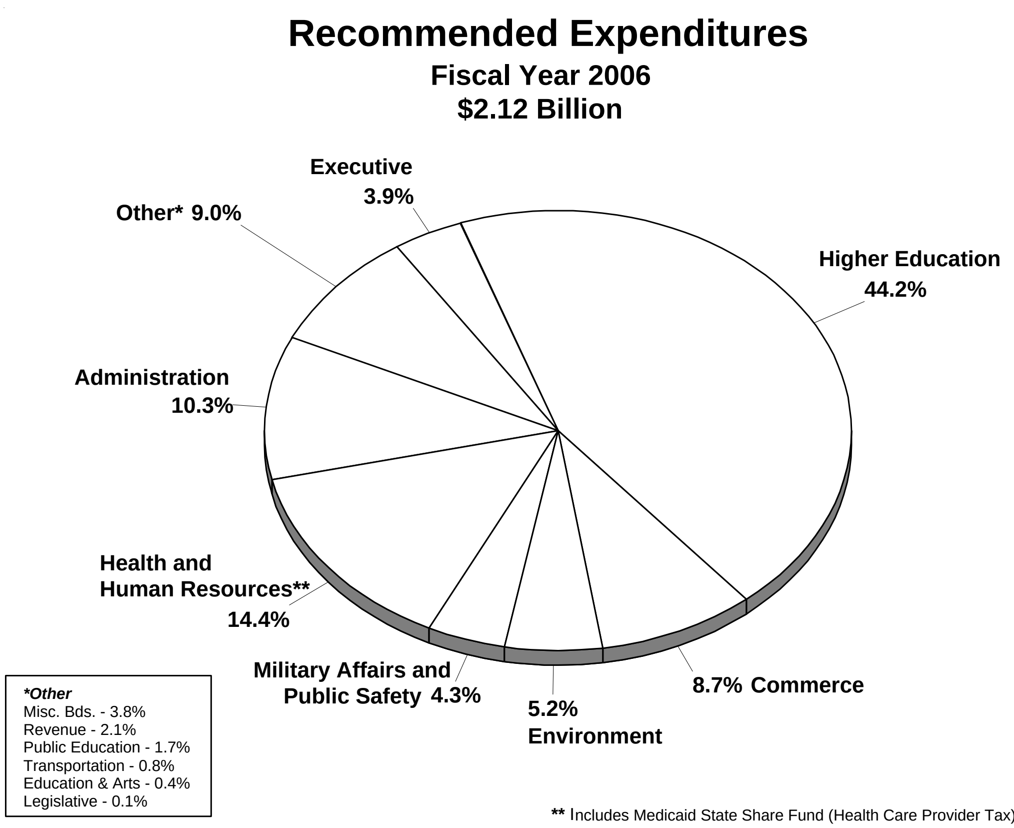
***Other*
Executive - 0.9%
Administration - 0.9%
Education & Arts - 1.4%
Employment Programs - 1.7%
Senior Services - 0.4%
Higher Education - 0.1%

**** Expenditures include FY 2006 revenues and beginning balances.**
*****Includes Federal Funds that are appropriated as part of the State Road Fund.**

Special Revenue Funds

Does not include:

- **Payments of claims from the Workers' Compensation trust funds.**
- **Payments of retiree benefits from the Consolidated Public Retirement Board.**
- **Payment of claims from the Public Employees Insurance Agency.**
- **Appropriated Lottery Funds and State Road Fund which are depicted separately.**



Medicaid State Share Fund

The Medicaid State Share Fund consists of provider taxes, paid by the various health care providers, to be utilized as matching funds for the Federal-State Medicaid Program. The provider taxes were initially enacted in 1993 as a funding mechanism to help supplement the general fund appropriation for the Medicaid Program. The Federal-State Medicaid Program grew significantly from roughly $300 million in FY 1989 to nearly $2.1 billion in FY 2004, a rate of growth that was nearly three times greater than the growth rate for the State General Revenue Fund. The Federal Government funds roughly 75% of the Medicaid Program in West Virginia through a match of $3 per every $1 of State funds appropriated for the program. In FY 2004, the Medicaid State Share Fund generated nearly $152.6 million or roughly 34.4% of the State matching funds for the Medicaid Program. Current Medicaid Program costs are rising by more than 7.0% per year while General Revenue Fund collections are increasing by less than 3.0% per year.

Legislation enacted in 2001 phases out various individual provider taxes over a ten–year period beginning in FY 2002 and provides for a malpractice insurance premium tax credit for physicians beginning in FY 2003. An additional malpractice insurance premium tax credit was enacted in 2003. The recent legislative changes will eventually reduce total provider tax collections by one-third.

- **0.875% to 5.95% tax on gross receipts from various medical service providers in West Virginia.**
- **Accounts for 34.4% of State match for Medicaid Program.**

Medicaid State Share Fund

(Expressed in Millions)